

Carolina local exchange industry through the SCTA. Among other things, these guidelines call for the eligibility of non-primary lines, or additional lines (ADLs) for support through the USF. SCTA also proposes that contributions to the USF be recovered through an explicit surcharge on retail customers' bills. SCTA expresses its belief that USF is a support mechanism intended to replace displaced implicit subsidies, and that the USF should not result in a "windfall" for any particular carrier. Under the SCTA plan, effective with the implementation of the SC USF, incumbent local exchange carriers (ILECs) should reduce prices for intrastate services that include implicit support for universal service to offset the gross amount received from the SC USF. SCTA states that such price reductions should be revenue neutral to the carrier upon the implementation of the State USF.

Further, SCTA proposes that this Commission administer the SC USF. The Association states that if this Commission chooses to delegate this task, the Administrator must be a neutral third party which is independent of any affected provider's interest.

Under the SCTA guidelines, the Administrator shall be charged with periodically determining the levels of contributions required and assessing the various contributors to meet the distribution needs of the SC USF, subject to Commission oversight and rules. A single SC USF shall supply the funding requirements for all South Carolina universal service programs. Further, the South Carolina Interim LEC Fund, established by the Commission pursuant to statutory authority would transition into the SC USF when funding

for the SC USF is finalized and adequate to support the obligations of the Interim LEC Fund. In addition, the administrator would be responsible for assessing telecommunications carriers, distributing funds to the various qualified recipients, and preparing and filing with the Commission and providing participants with results of an annual audit of the fund. The administration of all aspects of the fund shall be done in a competitively neutral manner under the SCTA guidelines.

Further, SCTA proposes that contributors to the SC USF will be identified in accordance with Section 254 of the federal Telecommunications Act of 1996 and S.C. Code Ann. Section 58-9-280(E) (Supp. 1996). Under the SCTA plan, all telecommunications carriers and other providers offering telecommunications services within the State of South Carolina will contribute to the USF. Companies would be deemed to be offering telecommunications services in South Carolina if such telecommunications are being offered "for a fee" and such telecommunications are being offered to an end user, or to such classes of users as to be effectively available to an end user.

Under the SCTA plan, telecommunications carriers that assume the obligations of carrier(s) of last resort (COLR) will be eligible to receive intrastate universal service support. COLRs will be designated by the Commission. COLRs are carriers that have assumed the obligation to provide basic local exchange telecommunications services to all requesting customers within a designated service area, at no more than the Commission-approved

reasonable rates. To be designated a COLR by the Commission, the carrier must be willing and able and must certify its commitment to provide the defined services supported by the SC USF to any requesting customer's location within the designated service area; must advertise the availability of such services and the charges therefor using media of general distribution; must provide services at not more than the Commission-authorized maximum rates; and must meet all service quality standards established by the Commission. A COLR may satisfy its obligation to provide the defined services over its own facilities or a combination of its own facilities and resale of another carrier's services. The COLR may also satisfy its obligation to provide the defined services in part through the lease of unbundled network elements (UNEs). A carrier that provides service solely through the resale of other carriers' facilities is not entitled to universal service support. The Commission may define a minimum percentage of owned facilities and/or leased UNEs for qualification as a COLR.

The Plan as proposed by SCTA further proposes that distribution of monies in the SC USF shall be made monthly to each COLR. A COLR shall only receive USF support for the provision of the defined service that utilizes its own facilities. Any USF distributions associated with resale of another carrier's service will be provided to the underlying COLR. The amount of USF support received by a COLR who satisfies its obligation to provide the defined services in part through the lease of UNEs should not exceed the difference between the sum of the prices paid for the

UNEs utilized in providing the defined basic local exchange telecommunications service and the established price allowed to be charged to the end user customer, nor shall such support exceed the level of support provided to a facilities-based provider.

SCTA suggests that, in our later proceedings to address the methodologies to be used for the SC USF, the Commission should determine the appropriate single-party residential and single-line business rates for companies in the State of South Carolina. These rates would represent the maximum rate that a carrier of last resort is authorized to charge an end user customer for the supported basic local exchange telecommunications service (except that discounts may be available to end users under the residential Lifeline program.) The SCTA Plan goes on to state that if the maximum allowed rate exceeds the company's tariffed rate for that service, the Commission should provide for an appropriate transitional period for adjusting end user rates for the supported services to the maximum rate. The amount of universal service support for a particular carrier will be based on the difference between the Commission-approved maximum rate (or transitional rate) and the cost of providing basic local exchange telecommunications service, as determined in the cost methodology proceeding to be held this fall.

In addition, according to SCTA, support for a statewide Lifeline program will be a part of the SC USF. The Lifeline and current Link-up programs for low income consumers will not be inconsistent with the federal guidelines for such programs. As

provided for in Section 54.409(a) of the FCC rules, the Commission should establish narrowly targeted qualification criteria that are based solely on income or factors related directly to income as the basis for participation in these programs. Consumers meeting qualifying criteria should be free to select any eligible provider of their choice.

Further, pursuant to FCC Rules 54.505 and 54.507, federal funds may be available for funding discounts to eligible schools and libraries on a first-come-first served basis, contingent upon the state establishing intrastate discounts that are no less than the discounts applicable for interstate services.

SCTA estimates that the total level of universal service support needed by ILECs in South Carolina is about \$439.7 million. Of this amount, according to SCTA, the ILECs currently receive approximately \$27.6 million in federal USF funds. This amount also would include the approximately \$31.9 million ILECs currently receive from the Interim LEC Fund, which would transition into the SC USF once funding for the SC USF is finalized and adequate to support the obligations of the Interim LEC Fund. This amount does not include such things as Lifeline/Link-up support and any administrative costs of the fund.

Various modifications to the SCTA Guidelines have been proposed by AT&T, MCI, WorldCom, Inc., and ACSI, as well as other parties.

AT&T, MCI, WorldCom, ACSI (the group) first propose two changes to the SCTA definition of universal service. First,

under the group-proposed changes, new entrants offering service within South Carolina will designate the areas in which they intend to provide service and on which the Commission will act, and the cost and support mechanisms associated with such service. Second, certain other language regarding services is stricken. With regard to SCTA's Carrier of Last Resort proposal, the group proposes to add language to the paragraph of the guidelines making a distinction between the resale of tariffed services and the purchase of UNEs.

The group proposes striking language which would automatically move funds from the Interim LEC Fund (ILF) to the USF. Without this change, the group believes that overfunding of the USF would occur. The group also proposes that a neutral third party administer the USF. The SCTA section on revenue neutrality would be eliminated under the group's proposed changes.

With regard to contributions to the USF, AT&T would amend the SCTA guidelines to allow funding from an assessment based on the intrastate end-user revenues of all telecommunications carriers net of payments to other carriers. Under AT&T's proposal, carrier USF assessments would be recovered through a stated surcharge on an end-user's bill.

The group proposes changes to SCTA's method of distribution from the fund in a manner which they say promotes consistency with the "own facilities" requirement of the federal act. The group also believes that funding should only be provided for the primary residential access line.

Other group proposed changes have to do with adjustments to contribution and distribution levels, recovery of USF contributions, the size of the fund, and rates.

With regard to support of schools, libraries, and healthcare providers, the group believes that the level of support being provided by federal funding is adequate and no state funding is required.

We also note with interest various proposals from other parties. The Commission Staff's testimony makes a proposal regarding the Lifeline program. The Women's Shelter raises various issues with regard to its particular situation, as does the South Carolina Public Communications Association, the Alliance for South Carolina's Children, the Consumer Advocate, and other participating groups and individuals.

Accordingly, after due consideration, we have decided that the proposals of the SCTA, as submitted in its Universal Service Guidelines are the most meritorious, in that they most successfully aid us in complying with the state and federal statutes, and should be adopted by us, with some modifications and additions as discussed below. We hold that the services to be funded are all services mandated by the FCC and South Carolina State law.

First, under the "Definition of Universal Service" section, the second subsection, we hereby modify the language to read as follows to ensure that Lifeline does not automatically require toll blocking: "And toll limitation at the request of the low

income consumer or in order to prevent further losses by the carrier of last resort, for low income consumers participating in the Lifeline (subject to technical feasibility)."

Second, under the "Definition of Universal Service" section, the third subsection, we modify the text to read as follows: "As initial carriers of last resort, ILECs shall establish designated service areas that shall not be inconsistent with federal guidelines (i.e. study areas for rural companies and wire center or smaller areas for non-rural companies). A new entrant may not receive USF support for serving an area that is smaller than the ILEC's designated service area." The purpose of this change is self-evident.

Next, we hold that this Commission will be the administrator of the Universal Service Fund. We believe that we have enough competent Staff to aid us in this task.

Further, we find that the estimated size of the fund is \$439.7 million, which is consistent with the testimony of SCTA. No funding will be provided until the state USF is implemented at a later date. All other issues in paragraph 9 of the guidelines as proposed by the SCTA related to the size of the fund will be deferred until after the next hearing in this proceeding.

In addition, all issues contained in paragraph 11 of the Guidelines proposed by the SCTA will be deferred until after the next hearing in this proceeding.

With regard to contributions to the USF, we hold that these shall be based on combined intrastate and interstate revenue,

which we believe is the most reasonable way to determine such contributions. We believe that combined revenues are an appropriate basis to determine contributions to the USF.

Further, with regard to carriers' costs, we acknowledge that carriers should be allowed to recover them, however, a decision related to the surcharge issue will be deferred until after the completion of the next hearing in this proceeding.

In addition, we adopt the very worthwhile proposal of the Staff witness Dr. Rhyne, related to the Lifeline program. We hold that the Lifeline Program should be extended to all eligible telecommunications carriers (carriers of last resort) within the State. By 1998, all carriers other than BellSouth shall participate in the Lifeline Program, and will receive Federal support of \$5.25 per customer without requiring any State funding. BellSouth is already in an existing Lifeline Program and by 1998 can increase the benefit to its customers to the maximum level of \$10.50 per customer without additional State funding. By 1999, all carriers of last resort would provide the maximum Lifeline Program benefit of \$10.50 per customer with the required additional State support coming from the intrastate USF. The criteria for qualifying for Lifeline support should remain the same as it is currently, at least until 1999.

We are also concerned about the needs of various temporary shelters as addressed by witness Kathy Riley. Therefore, we make the following order: Shelters whose principal purpose is to provide temporary (six to eight weeks) residential housing for

individuals or families in crisis qualify for residential rates for up to 3 lines after purchasing at least 1 business line. This is not part of universal service, but we are hereby characterizing this type service as a residential-type service. All ILECs shall implement the above referenced rate modification with billing cycles in November 1997.

With regard to schools and libraries, we hereby adopt the Federal matrix related to discounts for schools and libraries.

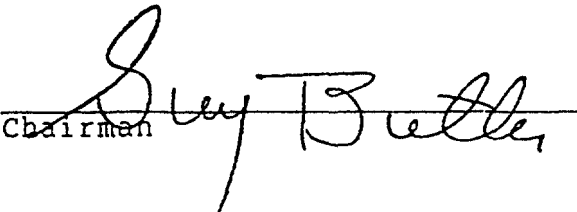
Lastly, with regard to payphone service providers, we hold that the guidelines should be clarified, if necessary, to require payment from payphone service providers as a percentage of end user revenues, and not as a percentage of the payphone service providers local telephone service bill. The proposal presented by the South Carolina Public Communications Association related to public interest phones shall be deferred until after the next hearing in this proceeding.

In summary, we believe that the SCTA Guidelines, as modified and supplemented by the above stated principles, do much to aid us to implement the Universal Service Fund in South Carolina, pursuant to State law. We also believe that the modified and supplemented guidelines do much to mesh South Carolina's USF plan with that required by Federal law. We reserve the right to further modify the guidelines at a later date, should the need be shown to do so.

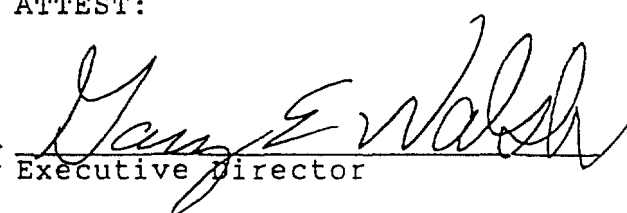
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This Order shall remain in full force and effect until
further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director

(SEAL)